

Guidelines for observation and exclusion

The conduct-based greenhouse gas criterion was incorporated into the Guidelines for Observation and Exclusion from the Government Pension Fund Global in 2016. Following its introduction, companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions. The other conduct-based exclusion criteria include serious or systematic human rights violations, serious violations of the rights of individuals in situations of war or conflict, severe environmental damage, gross corruption, and other particularly serious violations of fundamental ethical norms.

In Report to the Storting No. 26 (2016-2017), the Ministry takes “unacceptable” here to mean that gross norm violations are the target, in line with the established high threshold for exclusion under the Guidelines for Observation and Exclusion, and takes it that assessments of this shall continue to be forward-looking.

The Council on Ethics issued its first recommendations on exclusion under the greenhouse gas criterion on 30 May and 29 June 2017 and 15 March 2018. In Report to the Storting No. 26 (2016-2017), the Ministry stresses that “a thorough preparatory effort to interpret the criterion is a priority, thus enabling it to be applied across industries and companies”. The guidelines require Norges Bank to “ensure that sufficient information is available” before a decision is taken.

In its letter to the Council on Ethics of 2 May 2018, Norges Bank requested a more detailed assessment of the principles that are to be employed when applying the climate criterion, including which aspects of a company’s specific conduct should be considered unacceptable in connection with the recommendations given. In its response of 12 June 2018, the Council on Ethics provided further information on the principles underlying its recommendations and invited the Bank to a meeting for a further exchange of views. These letters between Norges Bank and



the Council on Ethics are enclosed. The Executive Board's Ownership Committee and the chair and deputy chair of the Council on Ethics met on 6 September.

The Executive Board considered the recommendations from the Council on Ethics on 24 October. The Board did not decide on any exclusions of individual companies at this meeting. This must be seen in the light of there still seeming to be differences in how the Council on Ethics and Norges Bank view how the conduct-based climate criterion should be applied. The Executive Board resolved instead to ask the Ministry of Finance for more detailed clarification of certain aspects of the application of the climate criterion.

The Bank has taken note of the Council on Ethics' assessment in its letter of 12 June 2018 of the significance to be attached to climate schemes when it comes to exclusion under the climate criterion. The Council on Ethics describes this as a difficult issue, but reaches the overall conclusion that it is currently difficult to attach overriding weight to whether a company is covered by a quota trading system or other regulation mechanisms.¹ In the recommendations issued by the Council on Ethics under this criterion, the Council has not attached weight to whether a company is covered by a quota trading system or other emissions regulation mechanism. Whether a company operates within a climate scheme or system with carbon taxes, carbon pricing or quota trading, should, as Norges Bank understands the *travaux préparatoires*, form part of the basis for assessments against the climate criterion. The same applies to how companies relate to these schemes.

In Report to the Storting No. 21 (2014-2015), the Ministry wrote: "Such a general company assessment is appropriate in view of the underlying premise of existing systems for curtailing greenhouse gas emissions and limiting global climate change, that activities in one area may be offset by activities in other areas, for example through trading in quotas. Excluding a company that operates in conformity with the guidelines of such a system might be counterproductive." The Ministry also wrote in the same report: "It is also natural for such overall assessment to take into consideration whether the greenhouse gas emissions of companies are subject to taxes, mandatory quotas or other regulations." With the Paris Agreement, there is now a legally binding and truly committing climate accord covering almost every country in the world. The agreement expects countries themselves to communicate a nationally determined contribution to emission reductions every five years and take action to achieve them.

Norges Bank would ask the Ministry of Finance to consider whether there is a need to elaborate on previous discussion of the significance of individual companies operating within a climate scheme, including carbon taxes, or systems with carbon pricing and quota trading.

Further, we have a question of more fundamental nature, relating to how the criterion is to be understood as a conduct-based criterion. Compared with other criteria in the guidelines, the climate criterion does not provide a very precise definition of what conduct should constitute grounds for a decision to exclude. Norges Bank would ask the Ministry of Finance to help clarify whether the primary basis for assessment against the climate criterion is intended to be companies' emissions. The Bank shares the view that high absolute emissions or emission

¹ The Council on Ethics writes: "One difficult issue for the Council on Ethics has been how much emphasis should be given to whether companies are covered by cap-and-trade systems, taxes and other measures that countries have introduced to reduce greenhouse gas emissions."



intensity can be a starting point for the screening of companies against the climate criterion, cf. Norges Bank's letter to the Council on Ethics of 2 May 2018. At the same time, the climate criterion requires assessment of more company-specific acts and omissions in relation to greenhouse gas emissions.

The Council on Ethics explained in its letter to Norges Bank of 12 June that it has worked on the basis that "all companies with high emissions have a particular ethical obligation to help achieve the target of a temperature increase well below two degrees" and that "if emissions are unacceptable, they need to be cut more than the average for the industry". The Bank would ask for the Ministry's opinion on whether the forward-looking assessment can attach overriding weight to greenhouse gas intensity relative to a sector average not improving over time. We would refer here to the international framework for emission reductions aiming at a gradual transition to a low-carbon future – a collective goal where reductions in both highly and less emission-intensive activities contribute to overall performance over time.

Yours faithfully

Øystein Olsen

Egil Matsen

Encs:

Letter from the Council on Ethics to Norges Bank of 12 June 2018
Letter from Norges Bank to the Council on Ethics of 2 May 2018